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Hungary

Grain and Feed

Annual

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Report Highlights: The 2002 grain crop was not large but met domestic demand. Prices remain low and estimates for both export demand and domestic consumption are bearish. The European Union's Common Agricultural Policy (CAP) will give a boost to the grain sector following Hungary's accession in May 2003. Corn producers in particular will see higher returns from EU membership. After Hungary joins the EU, there will be less domestic demand for compound feeds from the pork and poultry sectors.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Vienna [AU1], HU

Production

Farms seeded 1.1 million ha of winter wheat in the fall of 2002. Forty percent of the wintered green crop was valued good, 38 percent average and 22 percent weak quality by the Ministry of Agriculture(MOA) spring situation report. This result is worse the previous year's crop assessment. Yields in 2003 are not likely to be better than average.

Area seeded with winter barley is 180,000 ha. The quality of barley fields was hurt by the long winter and the spread of fungus in the early spring. Spring barley, about the half of the barley area, may help to offset the lower winter barley yields. Overall barley crop prospects for 2003 are still higher than the very low harvest of 2002.

Combined area of rye, triticale and oats will be near the long term average of 220,000-240,000 hectares.

Corn will be planted on about 1.2 million hectares in 2003. After 2004, area devoted to corn is expect to grow as one consequence of EU membership.

Production Factors

Fertilizer use is slowly increasing but estimates for 2002 (410,000 MT active ingredients) still put usage at sixty percent of 1990 levels. A pressing concern is the change in the composition of the fertilizer used. Farmers cultivating leased land tend to use less phosphate and potassium but more nitrogen fertilizer. The inadequate level and composition of nutrients contributes to fluctuations in crop yield and quality. The government does not directly subsidize fertilizer but producers must demonstrate a minimum threshold of spending on fertilizer and quality seeds as a condition of receiving per-hectare production subsidies.

The use of inferior planting seed and/or choosing the wrong varieties continue to hold back the production potential of many small farms, especially for wheat. The worse-than-usual condition of winter barley can be partly attributed to the planting of inappropriate or weaker varieties.

In corn production, the Ministry of Agriculture (MOA) estimates billions of Forints (USD 1 = 227 Hungarian Forint) in damage are caused by the western corn borer (*Diabrotica Virginiafera*). The pest is invading the best corn growing areas in southwestern Hungary. The magnitude of losses have become more serious in the past three years although the insect was first introduced into Hungary in 1992 from Yugoslavia. Crop rotation and chemical treatment are being used to reduce damage. Genetically modified corn is not an option at this time due to regulatory limitations both in Hungary and in Hungary's European export markets.

Prices and leasing fees for agricultural land are low in Hungary and because of this, crop production is competitive compared to western European farms. Land costs are increasing in Hungary because the CAP is expected to bring higher returns and because of set aside requirements that will increase the value of marginal lands.

Weather

The 2002/2003 winter was very cold and long. Snow cover protected the fall seeded fields of wheat, triticale, rye and winter barley while half of the rapeseed fields were destroyed under the icy snow. Thick snow cover and moist soil did not, however, result in damage due to standing water. The snow melt was slow and came at a time of dry, windy weather.

Consumption

Grain use by the domestic food industry is not scheduled to change in 2003. Dry milling uses 1.7 - 1.8 million MT of wheat and 170 - 200 thousand MT of corn annually. Wet milling (high fructose corn syrup production) consumes about 500,000 MT of corn.

According to the Association of Grain Traders and Millers, domestic sales of compound feed (about 5 million MT) did not grow in 2002 and there is little prospect for an increase due to stagnate hog and poultry numbers in 2003. Swine opening stocks in 2003 were 6 percent higher than a year ago, but low domestic prices and a saturated market may result in a considerable decrease (about 10%) of production later in the year. Opening stocks of poultry were 8 percent lower than in 2002, especially for broilers and layers. Numbers of ducks and turkey grew. Forecasts indicate a stagnate poultry sector until the spring of 2004.

Trade

The 2002 grain harvest was low to average. Nonetheless, Hungary's grain market is glutted. Export activity was bearish in 2002/2003 and prices were low. Wheat stocks are 500,000 MT higher than usual and unsold exportable corn stocks are about 800,000 to 1 million MT as of April 2003.

The government has started supporting public warehousing, on-farm storage and intervention purchases programs to remove grain from the market and to prop up prices. But a strong currency (the Forint) and low international prices have kept exports weak.

The Hungarian government is going to make use of a limited export subsidy program for wheat in April, 2003. The quota will be 225,000 MT and the subsidy will be HUF 2,000 (USD 8.80/MT). Export subsidies will be granted for any destination other than the EU and the CEFTA countries. These limitations have reduced the effectiveness of this long-anticipated program (Hungary has an agreement with the EU not to subsidize exports). Poland, on behalf of CEFTA countries has threatened Hungary with trade retaliation if the country uses grain export subsidies.

Stock levels following the 2003 harvest are likely to remain high. One interesting aspect of Hungary's impending EU accession is that the level of stocks in May 2004 may influence the degree to which Hungarian farmers use the CAP's intervention sales.

The importance of neighboring destinations (Bosnia, Croatia, Slovenia, Yugoslavia and Romania) has

grown in recent years. Due to small volumes purchases by traders in these countries, the share of on-truck transport has increased while rail shipments have declined in importance. Barge transport is also growing as partial blockages on the Yugoslavian section of the Danube river are being managed better. The major buyers of Hungarian wheat and corn in western Europe are Italy, Switzerland and Spain.

Exports of wheat flour and milled corn (and formula feed) may be considerable in some years, particularly when trade policy measures administratively stop the trade in grains. However, sales of these products are unable to counterbalance the ups and downs of the grain trade. According to trade sources, for the 2001/2002 marketing year, wheat flour exports were 65,262 MT, milled corn exports 51,477 MT, and formula feed exports 93,308 MT.

Prices

Due to weak demand in both domestically and in export markets, Budapest Commodity Exchange (BCE) prices are depressed. The Hungarian currency is also nearly twenty percent stronger now than it was last spring relative to the U.S. dollar.

Sample Commodity Exchange Prices
(BCE short time futures, USD/Metric Tons)

March				May		
2001	2002	2003	2001	2002	2003	Feed Corn
\$120.35	\$76.92	\$98.72	\$124.21	\$78.75	\$98.83	Feed Barley
\$121.75	\$77.03	\$86.78	\$122.80	\$76.19	\$87.20	Milling Wheat
\$121.75	\$76.33	\$103.08	\$132.63	\$97.06	\$97.62	

As in previous years, the government provided modest subsidies for feed grain storage costs (interest reimbursements) and subsidized public warehousing programs for animal producers and grain producers. These programs contributed significantly to the producer's bottom line by giving them the option of storing grain when prices were particularly low immediately following the harvest.

Policy

Hungary's agricultural support budget was USD 838.3 million (HUF 216.3 bn) in 2002 and is USD 1,021.7 million (HUF 235 bn) in 2003. The government has made major changes in the complex system of production subsidies for 2003 in order to help producers to make change to the CAP in 2004. Still, the 2003 production subsidies are more representative of the traditional Hungarian system rather than the CAP.

As a result of the Copenhagen agreement, EU accession countries will receive the following percentage EU direct payments: 25% in 2004, 30% in 2005, 35% in 2006. From 2007, direct payments will increase by 10% annually. Payments for new member countries will reach the level of payment that 'old members' receive by 2013. To compensate for this inequality, an additional 30% may be paid to farmers from

Hungary's national budget, increasing the subsidy to 55% of the normal EU direct payments. Also, one-fifth of the Regional Development Fund (financed by the EU) may be spent on this domestic "top-up"

Agricultural subsidy budgets for the next years will be the following:

2004 USD 1.12 billion
2005 USD 1.21 billion
2006 USD 1.32 billion

EU membership, at least in the early years, will not result in a considerable increase in agricultural subsidies for Hungary.

Hungary's EU membership will lead to an increase in production of field crops (grain/oilseeds/protein crops, sugar beets) and tobacco. Nearly three quarters (73%) percent of the direct payments under the CAP will go to grains/row crops. On the other hand, the horticultural sector (fruits, vegetables and wine) will face a more competitive environment.

Hungary's production quota for grains (3.488 million ha basis area and 4.73 MT/ha reference yield) is not much lower than Hungary's opening negotiating position. Direct payments will be calculated based on a maximum of 16.5 million MT of grain.

A Hungarian government research institute constructed a wheat and corn production model of an average farm. For wheat, the model indicated only a small growth in income resulting from membership in 2004. However, when actual 2002 corn prices were substituted with EU intervention prices in the model, and the current direct domestic subsidies replaced by 55% EU direct payments, per hectare revenue increased by 42 %. Corn will likely be the most lucrative field crop choice for Hungarian farmers under the EU system.

Another study compared the crop prices and input prices between the EU and Hungary. The 2000 increase of Hungary's grain prices reduced the actual price differences (20-22 percent in favor of the EU). The gap in input price differences (excluding fuels) did not narrow over the same period. This means that Hungary will probably not be able to maintain its lower input costs (land and labor) under the CAP. Land lease prices will likely increase, not only because of the higher subsidies, but because of additional land needed by the set-aside requirement.

The level of influence that EU membership has on the different types of farms will vary widely. According to some forecasts, five percent of Hungarian producers will collect 90% of agricultural subsidies under the CAP.

Under present direct payment and intervention conditions, corn, barley and rapeseed production will increase and wheat and sunflower-seed production will decline. Corn area expansion is somewhat limited by the spread of Diabrotica (a corn pest mentioned at Production Factors) and by the fact that corn production is more vulnerable to in fuel and petroleum-based fertilizer price increases.

Tariff Changes

Import tariffs for CY 2003 did not change but some of the preferential quotas did. Pertinent examples follow (in percent ad valorem):

Commodity

Previous MFN tariff	New MFN tariff	CEFTA tariff	
			Wheat, Planting Seed
20	20	15	Other
32	32	15	
			Barley, Planting seed
20.5	20.5	18	Other
32.8	32.5	18	
			Corn, Planting seed
20	20	0	Other
32	32		
		0*	
			Rice, Paddy rice
10	10	0	Brown rice
63.4	63.4	0	White rice
39.6	39.6	0	
			* except Czech, Slovakia (15%)

Imports of grain from the EU have the following preferential tariffs under quota :

Wheat - 70,000 MT - 0%;
 Rye 1,430 MT - 0%;
 Barley - 144,400 MT - 0%;
 Corn planting seeds - 102,000 MT - 0%;
 Corn other - 1,150 MT - 0%;

Rice of any kinds - 40,000 MT - 0%;

WTO quotas, open for imports from any WTO country in 2003, are the following:

Wheat and wheat flour -	48,623 MT - 10%;
Rye -	15,157 MT - 2%;
Barley -	109,058 MT - 3%;
Corn -	222,935 MT - 3%;
Rice -	19,433 MT - 25%.

Hungary's EU membership will not change tariff conditions for the grain imports from the US. The exceptions are barley and milled rice. The EU external tariff for rice is about 63% vs. the 39.6 percent Hungarian applied tariff (although the EU's application of the margin of preference results in a lower tariff for many U.S. suppliers). The EU tariff on barley is about 120% vs. the actual Hungarian duty of 32.8%.

Biotechnology

In July 1998, Hungary passed an Act called 'Organisms Modified by Gene Technology' (XXVII/1998). Parliament also approved the "application chapters" of the legislation in January 1999 (Decree No. 1/1999). This legislation is strictly based on older EU directives (such as EC 90/220). Amendment proposals from the scientific community and industry representatives were mostly ignored during the drafting of the legislation. Nevertheless, there appears to be little public opposition to biotechnology in Hungary.

The LXVII/2002 Act on "Gene Technology Activities" came into force on April 1, 2003 and amends the above Act of 1998. The amendment's main goal is full compliance with corresponding EU directives (which is somewhat of a moving target). Some new aspects of this Act are chapters on antibiotic resistance genes and monitoring. The executive orders implementing the act have yet to be written but will probably be in place later in 2003. These will cover: re-classifying the responsibilities of authorities, threshold limits, application procedures, etc.

A key element of Hungary's biotechnology regulation is the 'Reporting Committee on Biotechnology Activities,' which is a seventeen member body that approves or rejects the applications of new biotechnology products or field trials of new plant varieties. While most members of the Committee are eminent scientists, non-government organizations (NGO) have four members on the committee. Importantly, industry representatives have not been allowed on the Committee. One possible reason for this is that most of the companies promoting biotechnology are foreign.

The legislative process has been rather slow thus far and regulators are closely following the EU's example. This has hampered the introduction of new GMO varieties in Hungary. Nonetheless, several foreign and domestic GM varieties have been approved for field trials, environmental impact testing, and feeding trials.

GM Crop Field Tests

Year	Name of species	Number of (new) permits issued
1999	Rapeseed	..... 4
2000	Corn	..... 10
	Rapeseed	..... 2
	Sugar beet	..... 6
	Potato	..... 1
	Tobacco	..... 1
	Wheat	..... 1
	2001	Corn	..... 13
Potato		..... 1
Spring Wheat		..... 2
Tobacco		..... 1
2002	Corn	..... 11
	Potato	..... 2
	Spring Wheat	..... 2
	Tobacco	..... 2

Marketing Year Trade by Month and Country of Origin

CORN, Marketing Year 2002/2003 (MT)				
	IMPORT	MT	EXPORT	MT
October	USA	41	Russia	64
			Spain	21,581
			Slovenia	8,304
			Poland	204
			Germany	255
			Bosnia-Herz	1,975
			France	1,019
			Netherlands	3,696
			Belgium	19,752
			Croatia	5
			Romania	60
			Italy	139
			Switzerland	99
			Slovakia	3
			Czech Rep	41
Total		42		116,166
November	France	21	Turkey	2,957
	USA	78	Spain	61,539
			Slovenia	26,154

			Poland	460
			Bulgaria	101
			Germany	281
			Austria	26,987
			Bosnia-Herz	1,828
			France	3,800
			Netherlands	14,439
			Belgium	10,519
			Croatia	7
			Romania	1,004
			Italy	8,241
			Switzerland	305
			Slovakia	41
			Czech Rep	80
			Ukraine	555
Total		619		158,888
December	France	92	Turkey	278
	USA	164	Spain	40,739
	Slovakia	69	Slovenia	23,888
			Poland	643
			Bulgaria	0
			Germany	1,387
			Austria	18,473
			France	3,809
			Bosnia-Herz	1,252
			Netherlands	10,904
			Belgium	18,920
			Croatia	15
			Romania	3,837
			Italy	173
			Switzerland	1,537
			Slovakia	0
			Macedonia	747
			Czech Rep	179
			Ukraine	639
Total		324		126,614

Wheat PS&D

PSD Table						
Country	Hungary					
Commodity	Wheat			(1000 HA)(1000 MT)		
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	1200	1200	1100	1100	0	1112
Beginning Stocks	550	392	797	568	827	658
Production	5197	5176	3900	3900	0	4100
TOTAL Mkt. Yr. Imports	75	0	300	0	0	0
Jul-Jun Imports	75	0	300	0	0	0
Jul-Jun Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	5822	5568	4997	4468	827	4758
TOTAL Mkt. Yr. Exports	1855	2000	1200	860	0	1000
Jul-Jun Exports	1855	2000	1200	860	0	1000
Feed Dom. Consumption	1325	1100	1000	1000	0	1000
TOTAL Dom. Consumption	3170	3000	2970	2950	0	3000
Ending Stocks	797	568	827	658	0	758
TOTAL DISTRIBUTION	5822	5568	4997	4468	0	4758

Corn PS&D

PSD Table						
Country	Hungary					
Commodity	Corn					
					(1000 HA)	(1000 MT)
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		10/2001		10/2002		10/2003
Area Harvested	1300	1300	1150	1150	0	1200
Beginning Stocks	98	215	605	519	585	750
Production	7858	7600	6080	6000	0	6800
TOTAL Mkt. Yr. Imports	0	4	0	5	0	6
Oct-Sep Imports	0	4	0	5	0	6
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	7956	7819	6685	6524	585	7556
TOTAL Mkt. Yr. Exports	2751	2500	1800	685	0	1756
Oct-Sep Exports	2751	2500	1800	685	0	1756
Feed Dom. Consumption	4000	4200	3700	4200	0	4100
TOTAL Dom. Consumption	4600	4800	4300	5089	0	4900
Ending Stocks	605	519	585	750	0	900
TOTAL DISTRIBUTION	7956	7819	6685	6524	0	7556

Barley PS&D

PSD Table						
Country	Hungary					
Commodity	Barley				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	368	368	384	372	0	365
Beginning Stocks	101	70	149	100	99	25
Production	1300	1300	1100	1100	0	1150
TOTAL Mkt. Yr. Imports	27	50	50	5	0	30
Oct-Sep Imports	28	50	50	5	0	0
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	1428	1420	1299	1205	99	1205
TOTAL Mkt. Yr. Exports	179	120	100	80	0	60
Oct-Sep Exports	145	120	100	100	0	80
Feed Dom. Consumption	800	940	800	850	0	800
TOTAL Dom. Consumption	1100	1200	1100	1100	0	1100
Ending Stocks	149	100	99	25	0	45
TOTAL DISTRIBUTION	1428	1420	1299	1205	0	1205